

Office of the State Auditor
Division of State Audit

Mayville State University
Mayville, North Dakota

Audit Report for the
Biennium Ended June 30, 2007
Client Code 24000

Robert R. Peterson
State Auditor



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Transmittal Letter

February 28, 2008

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Dr. Gary Hagen, President, Mayville State University

We are pleased to submit this audit of Mayville State University for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Dave Feltman. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to Dr. Hagen and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

INTRODUCTION

Mayville State University is one of North Dakota's original colleges, since its establishment was provided in the state constitution of 1889. Teachers Colleges (then called "Normal Schools") had grown rapidly since their introduction into the field of American higher education soon after the Civil War. Three times the legislature of the Dakota Territory had moved toward the establishment of colleges for teacher education, but none of these efforts bore fruit for the people of the area, which became North Dakota.

The North Dakota Constitutional Convention of 1889 located sites for the nine original state institutions and funded them by a 30,000 acre land grant, leaving organization to the First Legislative Assembly.

Classes of the Mayville Normal School began in 1890, with funds for a building ("Old Main") provided by the Second Legislative Assembly in early 1891, where classes were initially held in 1893. Since then, Mayville State has steadily grown and progressed. In 1925, the State Board of Higher Education (SBHE) authorized Mayville State to grant a Bachelor of Arts in Education. The Mayville Normal School thus became a "teacher's college," providing general education and offering a four-year degree. Successive additions strengthened the curriculum; and as enrollment grew, new buildings appeared.

In 1948, the B.A. in Education became a B.S. in Education and the first non-teaching Bachelor of Arts was offered in 1961. In 1973 and 1982, the college established programs in business administration and computer studies, respectively. In the early 1980's, the Bachelor of Science and Bachelor of General Studies became available. The present name, Mayville State University, was approved by the legislature in 1987.

More information can be obtained from the institution's home page at: <http://www.mayvillestate.edu/>.

RESPONSES TO LAFRC AUDIT QUESTIONS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. What type of opinion was issued on the financial statements?

Unqualified.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Other than our findings addressing "Coaches Travel" and "Physical Inventory of Property" (see pages 17 and 18), we determined compliance with statutes, laws, rules, and regulations was adequate.

3. Was internal control adequate and functioning effectively?

Other than our finding addressing "Approvals and Support" (see page 14), we determined internal control was adequate.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

Yes.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes, a management letter was issued and is included on page 19 of this report, along with management's response.

LAFRC AUDIT COMMUNICATIONS

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.

Mayville State University has several related parties where management serves on the board of directors of the related parties. The President of Mayville State University serves on the board of directors of the following related parties: MaSU Foundation, Comet Athletic Club, and the Alumni Association. The Vice President of Business Affairs serves on the board of directors of the Comet Athletic Club.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The most significant accounting estimates used by Mayville State University include: useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

3. *Identify any significant audit adjustments.*

In our fiscal years 2007 and 2006 North Dakota University System audit reports, all of the material adjustments we proposed for Mayville State University were recorded. See Posted Audit Adjustments 10 and 12 on page 24 of the 2007 North Dakota University System audit report and Posted Audit Adjustment 11 on page 17 of the 2006 report.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), and Student Administration are high-risk information technology systems critical to Mayville State University. None of the exceptions noted in the seven audit report findings were directly related to the information technology system.

Background Information

The mission of Mayville State University is to educate and guide students, as individuals, so they may realize their full career potential and enhance their lives. They do this in an environment that reflects their tradition of personal service, commitment to innovative technology-enriched education, and dynamic learning relationships with community, employers, and society. As a member of the North Dakota University System, Mayville State University offers undergraduate degrees.

The vision of Mayville State University is to be known for continuing academic excellence in a cooperative, enjoyable, learning environment that anticipates and responds to individual needs.

The purposes of Mayville State University are to maximize:

- Collaborative relationships with schools, employers, and communities that contribute to the economic growth and social vitality of North Dakota;
- Effective support for appropriate applications of information technologies to instruction and administration;
- Academic programs and services that address real-world career and North Dakota workforce opportunities;
- Innovative, flexible delivery of instruction that meets the needs of the individual;
- Enrollment and revenue development through retention, recruiting, and new opportunities;
- Assessment and improvement of student learning outcomes and institutional effectiveness.

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of Mayville State University for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of Mayville State University's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to Mayville State University and are they in compliance with these laws?
3. Are there areas of Mayville State University's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of Mayville State University for the biennium ended June 30, 2007 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- Prepared condensed financial statements from the data used in the North Dakota University System's financial statement audits and developed a discussion and analysis of the financial statements.
- Tested and analyzed samples of expenses, direct general ledger transactions (ONL's), and receipts.
- Performed detailed analytical procedures related to statement of net asset items, revenue and expense items, and statement of cash flow items.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed Mayville State University written plans and applicable manuals.
- Observed Mayville State University's processes and procedures.
- Reviewed applicable sections in the North Dakota Century Code (NDCC), North Dakota Constitution, and appropriate session laws.
- Reviewed applicable meeting minutes.

Discussion And Analysis

The accompanying financial statements do not have the disclosures required by generally accepted accounting principles (GAAP) and have been prepared in a condensed form to present Mayville State University's financial position and the results of operations in a manner similar to that used for financial reporting in the private sector. Accordingly, the accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles.

For the biennium ended June 30, 2007, operations of Mayville State University were primarily supported by appropriations from the state's general fund (36%); student tuition and fees (21%); federal grants and contracts (18%); and auxiliary enterprises (14%). Resources were mainly used to pay salaries and wages (58%).

FINANCIAL SUMMARY

Operating revenues consisted primarily of student tuition and fees, as well as federal grants and contracts and auxiliary enterprises. Nonoperating revenues consisted mainly of state appropriations and gifts. These revenues remained fairly consistent between fiscal years 2007 and 2006, except for auxiliary enterprises which decreased over \$258,000 due mainly to less revenue from residence halls and book sales. Total revenues were \$12,950,149 for the year ended June 30, 2007 as compared to \$13,346,396 for the year ended June 30, 2006.

Total expenses for Mayville State University were \$12,744,861 for the year ended June 30, 2007 as compared to \$12,743,712 for the prior year. These expenses remained fairly consistent except for an increase in other nonoperating expenses of over \$368,000 due mainly to the lease of new notebook computers.

ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENSES

Mayville State University had no significant variances for the general fund expenses as reflected on the statement of appropriations.

Financial Statements

STATEMENT OF NET ASSETS

	June 30, 2007	June 30, 2006
ASSETS		
Cash and cash equivalents	\$ 1,481,569	\$ 881,428
Investments	162,247	158,739
Accounts receivable, net	205,639	134,088
Receivable from component units	12,979	107,019
Due from state general fund		118,704
Grants and contracts receivables, net	208,171	245,633
Inventories	208,621	201,327
Notes receivable, net	703,811	697,784
Unamortized bond discount and cost of issuance	2,081	2,081
Other assets	37,405	55,584
Capital assets, net	10,189,303	10,514,494
Total assets	\$ 13,211,826	\$ 13,116,881
LIABILITIES		
Accounts payable and accrued liabilities	\$ 415,636	\$ 216,769
Accrued payroll	439,314	392,578
Deferred revenue	87,702	83,151
Deposits	187,793	444,283
Due to others	4,551,072	4,655,079
Total liabilities	\$ 5,681,517	\$ 5,791,860
NET ASSETS		
Invested in capital assets, net of related debt	\$ 5,942,176	\$ 6,178,732
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	4,000	10,281
Expendable:		
Scholarships and fellowships	9,491	(26,641)
Instructional department uses	26,947	58,952
Loans	747,120	736,221
Debt service	168,381	156,749
Unrestricted	632,194	210,727
Total net assets	\$ 7,530,309	\$ 7,325,021

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	June 30, 2007	June 30, 2006
OPERATING REVENUES		
Student tuition and fees	\$ 2,753,354	\$ 2,771,926
Local appropriations	5,000	
Federal grants and contracts	2,257,397	2,399,344
State and local grants and contracts	15,087	11,500
Nongovernmental grants and contracts	(20,477)	
Sales and services of educational departments	619,321	674,232
Auxiliary enterprises	1,663,950	1,922,658
Other	7,884	11,933
Total operating revenues	<u>\$ 7,301,516</u>	<u>\$ 7,791,593</u>
OPERATING EXPENSES		
Salaries and wages	\$ 7,241,356	\$ 7,544,749
Operating expenses	2,952,103	3,088,125
Data processing	149,726	21,309
Depreciation	687,074	681,601
Scholarships and fellowships	362,053	442,318
Cost of sales and services	622,453	615,189
Total operating expenses	<u>\$ 12,014,765</u>	<u>\$ 12,393,291</u>
Operating loss	<u>\$ (4,713,249)</u>	<u>\$ (4,601,698)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 4,581,932	\$ 4,506,800
Gifts	655,707	449,950
Investment income	104,707	113,341
Interest on capital asset-related debt	(233,353)	(242,318)
Insurance proceeds	9,470	
Tax proceeds	174,336	162,774
Other nonoperating revenues (expenses)	(476,266)	(108,103)
Net nonoperating revenues	<u>\$ 4,816,533</u>	<u>\$ 4,882,444</u>
Income before capital grants, gifts, and transfers	<u>\$ 103,284</u>	<u>\$ 280,746</u>
State appropriations-capital assets	\$ 79,372	\$ 316,438
Capital grants and gifts	22,632	5,500
Total other revenue	<u>\$ 102,004</u>	<u>\$ 321,938</u>
Increase in net assets	<u>\$ 205,288</u>	<u>\$ 602,684</u>
NET ASSETS		
Net Assets-beginning of the year	\$ 7,325,021	\$ 6,722,337
Net Assets-end of the year	<u>\$ 7,530,309</u>	<u>\$ 7,325,021</u>

STATEMENT OF CASH FLOWS

	June 30, 2007	June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 2,749,240	\$ 2,731,336
Grants and contracts	2,289,469	2,642,490
Payments to suppliers	(3,549,951)	(3,905,343)
Payments to employees	(7,242,987)	(7,540,429)
Payments for scholarships and fellowships	(362,053)	(442,318)
Loans issued to students	(155,662)	(145,014)
Collection of loans to students	132,795	164,017
Auxiliary enterprise charges	1,679,688	2,022,632
Sales and service of educational departments	610,335	696,278
Cash collected (paid) on deposits	(63,007)	24,059
Other receipts	26,063	3,470
Net cash used by operating activities	\$ (3,886,070)	\$ (3,748,822)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 4,700,636	\$ 4,352,511
Grants and gifts received for other than capital purposes	655,707	449,950
Agency fund cash (decrease)	(108,260)	(42,727)
Tax proceeds	174,336	162,774
Other nonoperating revenue (expenses)	50,731	(115,180)
Net cash flows provided by noncapital financing activities	\$ 5,473,150	\$ 4,807,328
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	\$ 79,372	\$ 352,023
Capital grants and gifts received	22,632	5,500
Purchases of capital assets	(366,398)	(190,728)
Insurance proceeds	9,470	
Principal paid on capital debt and lease	(597,551)	(719,109)
Deposits with capital debt payment trustees	(3,508)	18,276
Interest paid on capital debt and lease	(235,663)	(244,954)
Net cash used by capital and related financing activities	\$ (1,091,646)	\$ (778,992)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 735	\$ 134,292
Interest on investments	104,707	113,341
Purchase of investments	(735)	(6,003)
Net cash provided by investing activities	\$ 104,707	\$ 241,630
Net increase (decrease) in cash	\$ 600,141	\$ 521,144
CASH - BEGINNING OF YEAR	881,428	360,284
CASH - END OF YEAR	\$ 1,481,569	\$ 881,428

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**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

	June 30, 2007	June 30, 2006
Operating loss	\$ (4,713,249)	\$ (4,601,698)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	687,074	681,601
Change in assets and liabilities:		
Accounts receivable adjusted for interest receivable	(6,913)	97,344
Grant & contract receivables	37,462	231,646
Inventories	(7,294)	(22,068)
Notes receivable	(6,027)	70,334
Other assets	18,179	(7,631)
Accounts payable and accrued liabilities adjusted for interest payable	164,784	(210,815)
Accrued payroll	31,819	9,025
Compensated absences	(33,450)	(4,705)
Deferred revenue	4,552	(15,914)
Deposits	(63,007)	24,059
Net cash used by operating activities	\$ (3,886,070)	\$ (3,748,822)

SUPPLEMENTAL DISCLOSURE ON NONCASH TRANSACTIONS

Assets acquired through capital leases		\$ 120,872
Expenses paid by capital lease/special assessments	\$ 526,994	
Total non-cash transactions	\$ 526,994	\$ 120,872

STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2007

Expenses by line item:	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating expenses	\$ 9,003,630	\$ 91,922	\$ 9,095,552	\$ 9,095,552	
Capital assets	1,858,994		1,858,994	437,264	\$ 1,421,730
Capital assets - carryover		24,205	24,205		24,205
Biennium carryover		19,795	19,795		19,795
Totals	\$ 10,862,624	\$ 135,922	\$ 10,998,546	\$ 9,532,816	\$ 1,465,730

Expenses by source:					
General fund	\$ 9,362,624	\$ 135,922	\$ 9,498,546	\$ 9,498,546	
Special fund	1,500,000		1,500,000	34,270	\$ 1,465,730
Totals	\$ 10,862,624	\$ 135,922	\$ 10,998,546	\$ 9,532,816	\$ 1,465,730

Appropriation Adjustments:

Operating expenses

The \$91,922 adjustment is for transfers from the NDUS contingency fund for presidential search expenses (\$47,692), facility/energy assessment (\$41,653) and disabled student services (\$2,577). These transfers were authorized by Senate Bill 2003 section 8 of the 2005 session laws.

Capital assets - carryover

The \$24,205 adjustment is part of the prior biennium's unspent general fund of \$44,000. The remainder is shown in biennium carryover as explained below.

Biennium carryover

The \$19,795 adjustment is the remainder of the prior biennium's unspent general fund as explained above.

Internal Control

Internal Controls Subjected To Testing

In our audit for the biennium ended June 30, 2007, we identified the following areas of Mayville State University's internal control as being the most important:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with laws and legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded that internal control was not adequate, noting certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Mayville State University's operations or ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements. The reportable conditions are described below. We also noted other matters involving internal control that we have reported to management of Mayville State University in the management letter located on page 19 of this report.

Finding 07-1

APPROVALS AND SUPPORT

We noted the following conditions when testing direct general ledger transactions (ONL's):

1. Twenty three of 32 ONL's were not properly approved. Of the 23 ONL's not properly approved, 15 had no approval and eight were approved by the preparer.
2. Six of 32 ONL's had no support attached to the document.

Good internal controls require approval by an authorized person, other than the preparer, of all transactions that affect the general ledger. For this approval to be meaningful, adequate supporting documents should be attached to the document. Failure to properly review and approve transactions increases the risk of undetected errors, fraud and theft.

Recommendation:

We recommend that Mayville State University properly approve and attach supporting documents to ONL transactions.

Mayville State University Response:

Mayville State has implemented the necessary changes including dual authorization of journal entries and review of support documentation.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2007, we identified and tested Mayville State University's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Legislative Intent Subjected To Testing

- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1 and Attorney General's opinion dated September 11, 1987).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Deposit and expenses of gifts to a state institution (Article IX, Section 1 of the North Dakota Constitution; Attorney General's opinion dated September 13, 1963; NDCC 1-08-02, 1-08-04, 15-10-12, 15-67-01, 15-67-04, 15-67-05 and 15-67-07).
- Lease and financing arrangements in budget requests and lease analysis requirements (NDCC 54-44.1-06 and 54-27-21.1).
- Inventory records and reporting (NDCC 44-04-07 and 54-27-21).
- Expenses being within budgeted amounts (NDCC 54-44.1-09, Article X, Section 12 of North Dakota Constitution and Attorney General's opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1-.5, 44-08-04.3, and 54-06-09 parts 1a, 1b, 3, 4, 5, and 6).
- Purchasing including bidding (NDCC 54-44.4-01, 54-44.4-05, 54-44.4-06, 54-44.7-02, 54-44.4-02, 44-08-01 and 48-01.1-03).
- Conflict of interest (NDCC 12.1-13-03 and 48-02-12).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-04, 47-30.1-02.1, 47-30.1-03.1 and 47-30.1-05).
- Nepotism (NDCC 44-04-09).
- Bond revenues and reserves (NDCC 15-55-03 and 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are described below. Other than these findings, we concluded there was compliance with the legislative intent identified above.

COACHES TRAVEL

MaSU coaches are not required to complete individual travel reimbursement vouchers when traveling with their respective teams. Their expenses are included as part of team travel and charged to account 521105, Travel – Students, rather than being charged as employee expenses. For our audit period, the total expenses charged to account 521105 were over \$230,000.

State Board of Higher Education (NDUS Human Resource Policy Manual section 31) requires employees who are authorized to travel at institutional expense, to submit a detailed record of travel expenses on a travel reimbursement voucher. Following those policies provides the means for complying with state statute including NDCC sections:

- 44-08-04 which provides the allowable reimbursement rates for employees and states employees who are authorized to travel at institutional expense are required to make a claim including a lodging receipt. (Current procedures throughout the state are to make claim(s) by submitting a detailed record of travel expenses on a travel voucher.)
- 44-08-05.1 (1) which states any public officer or employee who has the power to approve a payment for travel expenses or any other expenditure of public funds shall determine before approving the payment: If for employee travel reimbursement, the sums claimed for travel expenses are actually due the individual who is seeking reimbursement, allowance, or payment.

Audit Recommendation
and Agency Response

Recommendation:

We recommend that MaSU:

1. Comply with State Board of Higher Education travel policies and require all employees, including coaches, to submit a detailed record of travel expenses, as an employee, on a travel reimbursement voucher for all travel.
2. Code employee travel to the appropriate employee travel account numbers.

Mayville State University Response:

Mayville State is currently working on implementing credit card purchasing/travel procedures. This will eliminate travel advances for coaches and require that coaches pay for their expenses and request reimbursement per SBHE travel policies.

Finding 07-3

PHYSICAL INVENTORY OF PROPERTY

An inventory of property was not taken by MaSU during fiscal year 2006 or fiscal year 2007.

NDCC section 44-04-07 states that the person in charge of any state institution shall maintain a complete and current inventory record of all property of sufficient value and permanence as to render such inventory record practical. Each year such person shall make a complete inventory of all such property, and shall maintain such inventory, with the person's certificate thereto attached. Said inventory record must provide a comprehensive description of each item, together with manufacturer's serial number, or other means of positive identification, and must include statements of all property disposed of by any means whatsoever and must be in such form and detail as may be prescribed by the department charged with the duty of auditing or examining such records.

Audit Recommendation
and Agency Response

Recommendation:

We recommend that MaSU comply with NDCC 44-04-07 and complete a physical inventory of property each year, with the person's approval thereto attached.

Mayville State University Response:

Mayville State will improve physical inventory counts.

Management Letter (Informal Recommendations)

February 28, 2008

Mr. Steven Bensen
Vice President of Business Affairs
Mayville State University
330 Third Street NE
Mayville, ND 58257

Dear Mr. Bensen:

We have performed an audit of Mayville State University for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of Mayville State University's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of state, private, or federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status as non-reportable conditions.

The following present our informal recommendations.

CASH COUNTS

Informal Recommendation 07-1:

MaSU did not do any surprise counts of petty cash or till funds during the two-year audit period.

We recommend that MaSU perform surprise counts of petty cash on at least an annual basis.

Mayville State University Response:

The Mayville State Bookstore returns cash to the business office on a daily basis and the deposit and starting banks are prepared by the business office, thus making a surprise cash count futile.

The Mayville State Dining Services will continue to submit banks to us when the services close for the year. We will also implement quarterly surprise cash counts starting in the Fall 2008.

TRAVEL POLICY UPDATES

Informal Recommendation 07-2:

MaSU did not update their travel policy to include the current reimbursement rates for lodging, mileage, or meals.

We recommend that MaSU's policy manual regarding travel be updated to reflect the current reimbursement rates in compliance with 44-08-04 and 54-06-09, and that procedures be implemented to assure the policy manual is kept up to date.

Mayville State University Response:

Mayville State will review and update this policy annually.

USE, TRANSFER, AND DISPOSAL OF PUBLIC PROPERTY

Informal Recommendation 07-3:

MaSU adopted SBHE policies, but these policies do not contain a policy prohibiting the disposal, use, or transfer of any public property in an unauthorized manner, except for the disposal or transfer of real property and the use of state vehicles. Also, there is no policy that requires written approval and acknowledgement of responsibilities before any equipment can leave campus.

We recommend that MaSU create and implement policies and procedures regarding the proper disposal, use, and transfer of public property, as well as requiring written approval and acknowledgement of responsibilities regarding equipment that leaves the campus.

Mayville State University Response:

Mayville State will review SBHE policies and implement any necessary policies and procedures regarding the proper disposal, use, and transfer of public property.

LEASE PAYMENTS

Informal Recommendation 07-4:

One of 32 expense items tested was not properly supported. A lease payment of \$5,277 was processed for 11 copiers even though, for one copier, there was no lease to support a payment of \$252 and for another copier, there was an overpayment of \$73 because the incorrect overage rate was used.

We recommend that MaSU verify and agree lease payments to original documents.

Mayville State University Response:

Mayville State has implemented the recommended changes prior to the informal audit recommendations.

I encourage you to call me (701) 239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

John Grettum, CPA
Audit Manager